

Message Text

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PAGE 01 STATE 166460
ORIGIN NEA-10

INFO OCT-01 ISO-00 PM-04 AID-05 IGA-02 EB-07 OMB-01
TRSE-00 L-03 SS-15 ACDA-07 CIAE-00 INR-07 NSAE-00
/062 R

DRAFTED BY NEA/IRN:MLGREENE:MRC
APPROVED BY NEA/IRN:CWNAAS
DOD/ISA/DSAA:MAJOR ROUGEAU
PM:DKEENE

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-----085783 161720Z /46

R 160204Z JUL 77
FM SECSTATE WASHDC
TO AMEMBASSY TEHRAN
INFO SECDEF
USCINCUE
CARMISH MAAG TEHRAN
CSAF WASHDC

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E.O. 11652: N/A

TAGS: MASS, IR

SUBJECT: FMS PRICING POLICY FOR LOA'S - E-3 AIRCRAFT
FO IRAN

REFS: A. TEHRAN 5465 B. USAF DTG 181430Z

1. DOD/ISA HAS PROVIDED US WITH THIS MATERIAL BELOW TO
REPLY TO REFTEL A. WE CONCUR IN THE REPLY.

2. PRICING OF E-3 LOA IN CONSTANT YEAR DOLLARS, PURSUANT
TO GOI REQUEST, IS CONSISTENT WITH PROVISIONS OF DODI
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2140.1. "PRICING OF SALES OF DEFENSE ARTICLES AND
DEFENSE SERVICES TO FOREIGN COUNTRIES AND INTERNATIONAL
ORGANIZATIONS". WE CAN UNDERSTAND WHY GOI HAS REQUESTED
LOAPORTRAYAL IN THIS MANNER SINCE ITS PRICING IN CONSTANT
YEAR DOLLARS WILL BETTER ENABLE USAF AND GOI TO MEASURE
REAL COST GROWTH, IF ANY, APART FROM EFFECTS OF INFLATION.
FURTHER, E-3 LOA WILL CONTAIN MANY FEATURES SIMILAR TO

THOSE ALREADY IN F-16 LOA:

A. ESCALATION INDICES IDENTICAL TO THOSE PROVIDED CONGRESS IN SELECTED ACQUISITION REPORTS (SAR'S) WILL BE INCORPORATED WITHIN THE LOA.

B. CASE VALUES WILL BE PREDICATED ON ESCALATION INDICES. PAYMENT SCHEDULE, IN TURN, WILL REFLECT CUMULATIVE THEN YEAR LOA VALUE.

C. INFLATION DIFFERENT FROM THAT FORECASTED WILL RESULT IN REVISION OF PAYMENT SCHEDULE.

D. PAYMENT SCHEDULE WILL ALSO BE REVIEWED ANNUALLY AND REVISED AS NECESSARY TO REFLECT AND INCORPORATE CHANGES IN FORECAST PAYMENT REQUIREMENTS.

3. ALL USG COSTS, INCLUDING ACCESSORIAL ADMINISTRATIVE R&D RECOUPMENT CHARGES, WILL BE RECOVERED. THE GOI E-3 LOA WILL BE A CREDIBLE DOCUMENT, REFLECTING CAREFULLY COORDINATED AND FULLY DEVELOPED PRICE DATA.

4. SINCE TOTAL VALUE OF E-3 SALE TO IRAN IS REPORTED TO CONGRESS, ENTERED INTO FMS ACCOUNTING RECORDS, TRACKED AND BILLED BY THE DEFENSE SECURITY ASSISTANCE AGENCY ON A THEN YEAR BASIS, THERE IS NO DANGER OF LIMITED OFFICIAL USE

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CONFLICT WITH CONVENTIONAL ARMS TRANSFER POLICY. SPECIFICALLY FY 77 CEILING HIGHLIGHTED IN REFERENCED TEHRAN MESSAGE. ACCOUNTING OF CEILING WILL BE IN CONSTANT (FY 1976) DOLLARS SO THAT CONSTANT DOLLAR PRICING OF THE E-3 AND F-16 LOA'S IS COMPLETELY CONSISTENT WITH ARMS TRANSFER POLICY.

5. FYI. PRICING OF IRANIAN F-16 AND E-3 LOA'S IN CONSTANT YEAR DOLLARS IS CONSISTENT WITH SIMILAR ACTION TAKEN ON F-16 LOA'S FOR BELGIUM, DENMARK, THE NETHERLANDS AND NORWAY. NATO COUNTRIES HAVE AT TIMES REQUESTED PORTRAYAL IN THIS MANNER FOR REASONS ASSOCIATED WITH THOSE IN PARA 2 ABOVE. THIS PROCEDURE DOES NOT CONSTITUTE AN EXCEPTION TO THE PRICING PROVISIONS OF DODI 2140.1; CONSEQUENTLY, REF B IS MISLEADING IN THIS RESPECT. IT DOES, HOWEVER, DIFFER FROM NORMAL PRACTICE IN PREPARING AND PORTRAYING LOA'S. CONSEQUENTLY, IT IS LIMITED TO MAJOR DEFENSE SYSTEMS AND TO COUNTRIES SPECIFICALLY REQUESTING THIS METHOD OF PRESENTATION.
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Message Attributes

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Sent Date: 16-Jul-1977 12:00:00 am
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Disposition Approved on Date:
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